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CLERK U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIF.
LOS ANGELES

BY JS

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA,)
)
Plaintiff,)
)
v.)
)
JUSTIN PAPERNY,)
)
Defendant.)

No. CR 07-000060

I N F O R M A T I O N

[18 U.S.C. § 371: Conspiracy
to Commit Mail Fraud, Wire
Fraud and Securities Fraud]

The United States Attorney charges:

COUNT ONE

[18 U.S.C. § 371]

INTRODUCTION

1. Capital Management Group Holding Company LLC ("CMG") was an investment company operating in Southern California, within the Central District of California. CMG solicited investments in what it claimed was a hedge fund, namely, the GLT Venture Fund, L.P. ("GLT"). CMG claimed that GLT had been in operation since 1997 and received annual rates of return of approximately 27 percent. In fact, CMG and GLT had not been in

1 operation since 1997, and CMG and GLT had not seen annual rates
2 of return of approximately 27 percent.

3 2. Between at least September 2000 and January 2005, based
4 upon false representations, more than 40 investors in the Central
5 District of California and elsewhere throughout the United States
6 invested more than \$7 million with CMG.

7 3. Co-conspirator Keith Gilabert ("Gilabert") was the
8 founder of CMG and GLT. Co-conspirator Gilabert exercised
9 control over CMG investor accounts and the representations made
10 to the investors. During the course of the conspiracy, co-
11 conspirator Gilabert personally diverted, and caused others to
12 divert, investments in CMG and GLT for various unauthorized
13 purposes, including the purchase of personal and real property.

14 4. Defendant JUSTIN PAPERNY ("PAPERNY") was originally a
15 co-worker of co-conspirator Gilabert at a major brokerage firm.
16 Following the creation of CMG, defendant PAPERNY served as the
17 co-account manager for GLT at a brokerage firm and was also an
18 account vice-president of the brokerage firm co-conspirator
19 Gilabert used to make trades on behalf of his CMG clients (the
20 "Brokerage Firm"). Among other things, defendant PAPERNY
21 received monies from co-conspirator Gilabert in exchange for
22 facilitating and participating in the fraudulent conduct.

23 THE OBJECTS OF THE CONSPIRACY

24 5. Beginning in or before April 2002, and continuing to at
25 least January 2005, in Los Angeles County, within the Central
26 District of California, and elsewhere, co-conspirator Gilabert
27 and defendant PAPERNY, together with others known and unknown,

1 knowingly conspired and agreed to commit the following offenses
2 against the United States:

3 a. To commit mail fraud through use of the United
4 States mails, by knowingly and with intent to defraud, devising,
5 participating in, and attempting to execute and executing a
6 scheme to defraud, and to obtain money and property by means of
7 materially false and fraudulent pretenses, representations, and
8 promises, and the concealment of material facts, in violation of
9 Title 18, United States Code, Section 1341;

10 b. To commit wire fraud by use of wire communications
11 in interstate and foreign commerce, by knowingly and with intent
12 to defraud, devising, participating in and attempting to execute
13 and executing a scheme to defraud, and to obtain money and
14 property by means of materially false and fraudulent pretenses,
15 representations, and promises, and the concealment of material
16 facts, in violation of Title 18, United States Code, Section
17 1343; and

18 c. To commit securities fraud in connection with the
19 purchase or sale of a security of an issuer with a class of
20 securities registered under section 12 of the Securities Exchange
21 Act of 1934, by knowingly and with intent to defraud, devising,
22 participating in and attempting to execute and executing a scheme
23 to defraud, and to obtain money and property by means of
24 materially false and fraudulent pretenses, representations, and
25 promises, and the concealment of material facts, in violation of
26 Title 18, United States Code, Section 1348.

THE MANNER AND MEANS OF THE CONSPIRACY

6. The objects of the conspiracy were carried out, in part, as follows:

a. Co-conspirator Gilabert and others caused promotional materials that discussed CMG and GLT to be given to potential investors. Co-conspirator Gilabert, defendant PAPERNY and others also spoke personally with prospective investors in an effort to convince them to invest with CMG. Through those promotional materials and personal discussions, co-conspirator Gilabert and defendant PAPERNY made the following materially false and misleading representations and promises, among others:

i. The investment strategy (and hence risk) that would be used by GLT in making trades would comport with the representations made to the investors; and

ii. The Brokerage Firm would maintain oversight of GLT and endorsed co-conspirator Gilabert's qualifications and ability to effectively manage the trading activity of GLT.

7. As co-conspirator Gilabert and defendant PAPERNY well knew, the representations and promises made both orally and in CMG's promotional materials were materially false and misleading in that:

a. The investment strategy (and hence risk) that would be used by GLT in making trades did not comport with the representations made to the investors; and

b. The Brokerage Firm did not maintain oversight of GLT and did not endorse co-conspirator Gilabert's qualifications and ability to effectively manage the trading

1 activity of GLT.

2 LULLING STATEMENTS TO CMG INVESTORS

3 8. As a further part of the conspiracy, co-conspirator
4 Gilabert, defendant PAPERNY and others engaged in the following
5 practices, among others, to lull CMG investors into a false sense
6 of security that their funds were secure and not at risk, and to
7 prevent investors from complaining to federal or state
8 authorities or bringing a lawsuit against CMG:

9 a. Co-conspirator Gilabert mailed false account
10 statements to clients of CMG via United States mail. Those
11 account statements, compiled by co-conspirator Gilabert, falsely
12 stated that the CMG accounts of the clients had increased in
13 value.

14 OVERT ACTS

15 9. In furtherance of the conspiracy, and to accomplish its
16 objects, co-conspirator Gilabert and defendant PAPERNY, together
17 with other co-conspirators known and unknown, committed and
18 caused others to commit the following overt acts, among others,
19 within the Central District of California and elsewhere:

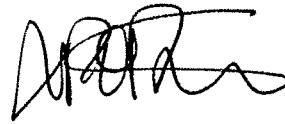
20 Overt Act No. 1: In or about March 2002, co-conspirator
21 Gilabert visited prospective investor S.B. at his home in an
22 effort to convince S.B. to place his funds in the control of co-
23 conspirator Gilabert and CMG.

24 Overt Act No. 2: In approximately April 2002, defendant
25 PAPERNY, at the request of co-conspirator Gilabert, sent an
26 electronic communication falsely representing that the Brokerage
27 Firm would make shares of a highly anticipated initial public

1 offering to co-conspirator Gilabert for purposes of misleading
2 potential investors in CMG.

3 Overt Act No. 3: On or about November 18, 2004, co-
4 conspirator Gilabert made a payment of approximately \$15,600 to
5 defendant PAPERNY, paid through a third party, for the purpose of
6 compensating defendant PAPERNY.

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